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Texas A&M Engineering Experiment Station
  Financial Management Services
TEXAS A&M ENGINEERING EXPERIMENT STATION

Financial Management Services

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Charlie Hrncir, C.P.A.
Chief Auditor

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Overall Conclusion

Financial management controls and processes at Texas A&M Engineering Experiment Station are operating as intended and in compliance with applicable laws and policies. Overall, processes and controls appear to be effective in most of the areas reviewed. Opportunities for improvement were noted in the areas of inventory management, receivables, and reconciliations.

Management concurred with the audit recommendations and indicated that they will have all of the recommendations implemented by the end of February 2018.

Detailed Results

1. Inventory Management

The current inventory process requires improvement to better track inventory of computer-related equipment and resolve missing inventory items in a complete and timely manner. The agency's fiscal year 2016 inventory certification report included 185 missing inventory items with a stated value of $800,865. Although these missing items accounted for only 2% of all inventory items and .5% of the agency's inventory value, the majority of the missing items were computer-related equipment. Missing items such as desktop computers, tablets, and laptop computers totaled $294,000 or 37% of the overall missing inventory value and 78% of all missing inventory items.

Based on meetings with several departmental alternate accountable property officers, several factors contributed to the higher percentage of missing computer-related equipment. This includes the need for increased communication and coordination with the agency's information technology department when this equipment is transferred or surplused and turnover in alternate accountable property officers in some departments. It was also noted that instances of negligence by responsible parties related to missing equipment are not consistently noted on the missing inventory form to help maintain user accountability for this equipment.

The A&M System Asset Management Manual states the agency is responsible for ensuring property is tracked and secured in a manner most likely to prevent the
Theft, loss, damage or misuse of assets. Failure to properly track and secure assets could lead to possible financial, reputational, or confidential data loss.

**Recommendation**

Address the missing inventory items noted above during the annual inventory review process. Improve communication and coordination between alternate accountable property officers and the agency's information technology department to better track the movement and surplus of computer-related equipment. Increase centralized monitoring of inventory management such as by meeting periodically with the alternate accountable property officers to discuss questions and concerns regarding the department’s inventory and its current status. Properly note instances of negligence by the responsible party on the missing inventory form to hold these individuals accountable for missing items entrusted to them.

**Management’s Response**

Annual training will be provided to alternate accountable property officers to address inventory requirements and proper surplus procedures. Periodic monitoring will be conducted with appropriate follow up actions taken. Coordination with Engineering Information Technology will be improved, and communication regarding the proper reporting of instances of negligence will be provided. Recommendation will be implemented by February 28, 2018.

2. Receivables

**Accounts receivable collection processes do not ensure outstanding accounts receivables are collected in compliance with laws and policies.**

First demand letters were not sent within 30 days of the date of delinquency for six of nine past due receivables tested. Three were sent within 45 days of the date of delinquency and the remaining three ranged from 70 to 560 days. One of four second demand letters was not sent within 60 days of the first demand letter. In addition, the agency currently places debtors on state warrant hold when the debt is deemed uncollectable rather than upon delinquency as required.

Receivables over 180 days past due were not reviewed timely to determine the disposition of these items. This is important due to the fact that collection of some past due receivables is the responsibility of individual departments and the status of these receivables is not always adequately communicated to accounts receivable personnel in the fiscal office. Instances of outdated or inaccurate due dates were also noted on the accounts receivable aging report making it difficult to effectively monitor the status of aged receivables.
A&M System Regulation 21.01.04, *Extension of Credit*, requires the first demand letter be sent no more than 30 days after the obligation becomes delinquent and the second demand letter be sent 30 to 60 days after the first demand letter. Members are also required to utilize the State Comptroller's warrant hold process when debts are determined to be delinquent. Inaccurate or delayed billing could result in inaccurate financial information or loss of funds. Failure to properly place state holds for delinquent accounts could result in the state improperly releasing funds to these debtors.

**Recommendation**

Improve current processes for ensuring the administration of past due receivables is performed in compliance with A&M System regulations and agency procedures. Maintain accurate and current information on the aged receivables report and increase centralized oversight and monitoring of receivables administered by agency departments. Utilize the State Comptroller's warrant hold process for debt at the time of delinquency.

**Management’s Response**

Past due receivables will be administered in accordance with system regulation. First demand letters will be sent no later than 60 days past the invoice date and second demand letters, as needed, sent no later than 60 days from the date of the first letter. Additionally, the vendor hold process will be improved, placing vendors on hold at the time of delinquency. Recommendation will be implemented by December 31, 2017.

3. **Reconciliations**

Reconciliations are not being completed in a timely manner. Five of seven bank and clearing account reconciliations tested were not completed within 30 days of month end as required by agency procedures. Four reconciliations were completed an average of 44 days late. The remaining reconciliation has not yet been performed due to a miscommunication with another agency administrative office. This was a new clearing account set up in August 2015 when the agency transitioned to the A&M System's Financial Accounting and Management Information System (FAMIS).

Two of the six completed reconciliations had only limited documentation of outstanding items and the corresponding actions to clear them. Current agency procedures indicate that documentation such as notes and tickmarks should be used, especially on older items, to help the reconciler and reviewer know what the
item is and its progress in getting cleared. Three completed reconciliations with outstanding items older than six months were not formally escalated as required.

Procedures for reconciling accounts are still being developed in some cases as some of the account detail is not easily reconciled in the agency's recently implemented automated reconciliation system (T-Recs). Without adequate monitoring of account reconciliation in place, the risks are increased that errors or discrepancies would remain undetected.

Recommendation

Improve the agency's processes for performing reconciliations to ensure all reconciliations are completed timely, outstanding items and actions to correct them are adequately explained, and any items over six months old are formally escalated to the appropriate management personnel.

Management’s Response

The process for tracking submission and approval of bank and clearing account reconciliations will be improved to address timely completion, explanation of outstanding items/corrections, and management escalation. Recommendation will be implemented by November 30, 2017.
Basis of Review

Objective and Scope

The objective of this audit was to determine if selected financial controls and processes at the Texas A&M Engineering Experiment Station are operating as intended and in compliance with applicable laws, policies, regulations, and agency rules.

The audit focused on contract management, receivables, voucher approval processes, reconciliations, FAMIS user access, inventory management, Payment Card Industry (PCI) compliance, and procurement cards. The audit period was focused primarily on activities from January 1, 2016 to December 31, 2016. Fieldwork was conducted from February to April, 2017.

Methodology

Our audit methodology included interviews, observation of processes, review of documentation and testing of the following nonstatistical samples of data selected using professional judgment:

- A sample of 13 contracts to test contract compliance.
- A sample of 9 past due accounts receivables to test receivables compliance.
- A sample of 7 accounts to test reconciliation compliance.
- A sample of 3 departments and corresponding assets to test inventory procedure compliance.

Criteria

Our audit was based upon standards as set forth in Texas A&M University System Policies and Regulations; Texas A&M Engineering Experiment Station Standard Administrative Procedures; Texas Administrative Code; and other sound administrative practices. The audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Audit Team

Robin Woods, CPA, Director
Brian Billington, CPA, CIA, CISA, Senior Manager
Dawn Allen
Chesney Cote, CPA, CISA
Daniel Garland

Distribution List

Dr. M. Katherine Banks, Vice Chancellor and Dean of Engineering, Director of TEES
Dr. Dimitris Lagoudas, Deputy Director
Mr. John Crawford, Assistant Vice Chancellor of Business Management & Chief Financial Officer
Mr. Andy Hinton, Controller
Ms. Lisa Akin, Director, Risk and Compliance